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ANALYSIS OF SHANG-HAI COMMODITY PRICES

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I. INTRODUCTION

Since Shang-hai is the financial and economic center of China, the effect of its commodity price fluctuations on the rest of the country is generally widespread. These price fluctuations influence the nation as soon as they become apparent. This article analyzes the changes in commodity prices that occurred during 1947.

II. EVALUATION OF 1947 PRICE FLUCTUATIONS

A. January Through March (Third Week)

Commodity prices continued their 1946 tendency of gradual increase because of: (1) the futility and complete failure of the KMT-CCP peace discussions; (2) the securing of additional industrial loans and more stringent government controls over import-export trade.

Due to the hurried attempts of all industries to settle their accounts before the end of the old calendar year, there was a temporary shortage of currency in circulation at that time. Consequently, there was only a slight rise in prices during that relatively short

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period. According to the Shang-hai Basic Commodities Wholesale Price Index published by the Economic Research Department of the Central Bank, the index for the third week in January was 6702. This represented an increase of only 9.6 percent as compared with the fourth week in December 1946.

A general feeling of uneasiness arose at the time of the Spring Festival when announcement was made that the peace talks were discontinued, and General Marshall returned to the United States. Free capital from all parts of China became concentrated in Shang-hai. The government at this time issued production loans, and a large quantity of Customs Gold Certificates were released. Much confusion resulted from the rumors that the exchange rate was to be readjusted. A public announcement at this time declared that a system was to be instituted whereby duty on imports would be increased in order to achieve a balance with exports. These various factors stimulated the efforts of merchants and persons with free capital to acquire gold and US dollars, which were safe investments. This acquisition finally became a general objective.

The competition among speculators spurred on their buying efforts. In order to meet its obligations, the government had to engage in selling without limit. The continued rise in prices showed a tendency for demand to exceed supply. The price of gold rose from 400,000 yüan per market ounce to 940,000 yüan in a few days. The exchange rate per US dollar rose from 7,000 yüan to 18,000 yüan. Other commodities were greatly influenced by this precipitous rise in the exchange rate of gold and US dollars. Within 2 weeks, the price of several had actually risen from 100 percent to over 200 percent of their former price. Market prices experienced a wild spurt upward when the news of stricter government controls was released on 18 February. The market had to quiet down, however, so the prices of many commodities gradually came down again.

An analysis of the most important of these commodities considered absolute necessities revealed that the conditions governing the Shang-hai rice market were still considerably stable before the end of the Chinese calender year. The average price per market picul of rice during the first week in February was 90,500 yüan. By the second week, the price had already risen to 89,000 yüan. The third week saw a further price rise to 131,000 yüan, which represented a rise of 47 percent as compared with the second week. By the fifth week, however, the price of rice had dropped to 111,000 yüan. Other commodities such as wheat, flour, bean oil, salt, bituminous coal, etc., experienced an almost identical rise and fall price pattern.

During the first week in February, the price of 10 gallons of kerosene was 46,000 yüan. By the second week, the price had risen to 51,000 yüan. A week later, the price again rose to 95,000 yüan. This represented a price increase of more than 100 percent as compared with the first week in February. Kerosene did not experience a price drop even after the third week in February, however, because the exchange rate for import commodities had been raised. At the same time, a fixed limit regarding the amount of import goods to be allowed into the country hereafter was prescribed. This factor, together with the increase in the exchange rate, caused other import commodities such as bar iron and newsprint also to experience a continuous price rise.

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Export commodities such as hog bristles and tung oil rose sharply in price after 17 February when the rate of exchange was raised to 12,000 yüan (per US dollar). The average price per quintal of hog bristles during the first week in February was about one million yüan. It was estimated that the price per quintal during the second week was 1,333,000 yüan, or an increase of 30.6 percent over the first week /sic/. The price of hog bristles had risen to more than 2,400,000 yüan by the third week in March. This figure had increased by more than 100 percent from that quoted 5 weeks before. Tung oil rose in price from 1,700,000 yüan per quintal during the first week in February to over 4,100,000 yüan for a similar quantity by the third week in March. The price increase of these various commodities closely corresponded to the increase in the exchange rate per US dollar that took place at that time.

The price changes in raw materials and manufactured goods followed a slightly different pattern as compared with import and export commodities. For example, "T'o-shuang-ma" cotton yarn /presumably a special trademark/ was priced at 2,400,000 yüan during the first week in February. By the third week, its price had spurted to 4,185,000 yüan, almost twice its former price. However, after the emergency laws were promulgated, the cotton-yarn markets all came to be regulated by the government. Thus, the market finally became temporarily stabilized. The price of yarn was maintained at 3,400,000 yüan during the third week of March, which differed only slightly from that observed during the second week in February.

Manufactured commodities such as silk goods and cotton cloth rose only slightly in value, because the market for such goods possessed little purchasing power at that time.

An arbitrary designation of the 1947 period extending from before the Spring Festival to the fourth week of March, as constituting one stage in our analysis of commodity prices, facilitates an understanding of: (1) the relation of price fluctuations to the people's livelihood; (2) the relation of exchange rate regulations to suddenly rising import and export prices; and (3) the way in which high prices bring about a production crisis.

Those commodities deemed essential for the people's livelihood, such as rice, wheat flour, bean oil, salt, coal, etc., all experienced conspicuous price rises. Wheat flour rose 84.5 percent (the greatest rise), while rice rose 53.5 percent (the smallest rise). The other commodities in question rose more than 60 percent on the average. A glance at these figures clearly indicates that the cost of living rose by the least 50 percent during this period. These daily fluctuating prices made existence extremely difficult.

Export and import products during this stage rose higher in price than any other group. /As compared with their prices during the second week of February/, kerosene rose 113.8 percent, bar iron rose 150 percent, and newsprint rose 152.5 percent in price. Export products such as hog bristles rose 166.4 percent, while tung oil rose 188.4 percent The export and import commodities had the steepest rise because of the /governmental/ regulation of exchange rates. While raw materials and manufactured goods did not rise as much as export and import products during the first period /February-March/, their price increase exerted a similarly important effect on the people's livelihood. Compared to the pre-Spring Festival period, the price of raw silk rose by 44.6 percent, that of raw cotton 20.1 percent, the closely allied "Shuang-ma" cotton yarn 15.6

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percent, raw silk 46.9 percent, and fine quality cloth 67.5 percent.

Although it might be thought that the high price of manufactured products would possibly have encouraged their production, the exact opposite was actually the case. A production crisis resulted because the masses of people expended all their money in efforts to secure daily necessities such as rice, oil, salt, etc. Therefore, it became increasingly difficult to sell manufactured luxury products for such high prices.

Although the wild upsurge in commodity prices was started by investments in gold and notes, its basic cause was the inflation of the currency and raising of the exchange rate. After the wave of price increases had subsided, it arose again after only 2 weeks of market stability had elapsed. The reasons for this extremely short period of stability are enumerated below:

1. The leading cause was the uncontrolled fluctuation in the value of gold and note. This led the people to feel that price rises were inevitable. The extremely rapid and sudden rise in Shang-hai commodity prices during this period almost reached its maximum limit. After exchange in gold and notes was prohibited, however, the market became temporarily settled. All prices generally dropped somewhat and recovered slightly from their previous high price levels.

2. A considerable recovery in prices was then effected by continued rumors of good news concerning a 500 million dollar loan to China by the US.

3. Free capital was abundant during the period of price fluctuations. However, after emergency restrictive measures had been put into operation, speculators finally turned their attention and interest to stocks and bonds. Five types of bonds rose tenfold, on the average, from the first week in February to the third week in March. Stocks, on the other hand, for example, lively ones such as Wing On Textiles, Mayar Silk, Ching Foo, Standard Shirts, etc., experienced an average rise of 300 to 400 percent, as compared with the first week in February. Because free capital was tied up in relatively secure stock market investments, its effect on commodity prices at this time was naturally very slight.

4. The general purchasing power was extremely weak, particularly after gold and notes were frozen by the government. Many commodities increased 100 percent in price as compared with the previous month; this resulted in a proportionate decrease in the invisible forms of wealth owned by the people. Commercial establishments were forced to lower the prices of various goods in order to meet expenses and interest.

B. <u>March (Fourth Week) Through May</u>

A less than one month period of price stabilization followed. However, owing to the prolongation of hostilities in North China, free capital once again flowed into Shang-hai. A considerable amount of this inactive capital was invested in negotiable certificates. People in general tried to protect themselves against the [ever-decreasing] value of their currency by spending it for hoarding essential commodities. Therefore, such necessities as rice, bean oil, raw cotton, cotton yarn, cloth, raw silk, etc., all continued to rise steadily in price right up to the end of May.

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In regard to commodity price fluctuations during this one period, rice cost 110,000 yüan per market picul during the fourth week in March. By the fifth week in May, the price had risen to 400,000 yüan per market picul. This price rise was almost threefold, 270.5 percent [sic]. The price of bean oil was 313,000 yüan per quintal during the fourth week in March. By the fifth week in May, it had risen to 557,000 yüan per quintal, a 78.1 percent price rise. The price of kerosene rose from 96,000 yüan per 10 gallons to 170,000 yüan, a rise of 80.6 percent. The price of "20-thread Twin Horses" cotton yarn rose from 3,530,000 yüan per bale to 7,550,000 yüan, an increase of 113.9 percent. The price of raw silk rose from 7 million yuan per quintal to more than 21,100,000 yüan, a price rise of 200.8 percent. The rise in prices was not limited only to the few basic commodities enumerated above. Almost all essential commodities rose by from 100 to 200 percent [between the third week in March and the fifth week in May]. The only major exceptions to this general tendency were export products such as hog bristles and tung oil, which did not rise more than 30 percent in price.

The following factors which caused the gradual and almost threefold rise in the price of rice [and other commodities] should merit our closest attention:

1. Most of the rice consumed by Shang-hai comes from the Ch'ang-hai [Ch'ang-shu to Wo-hsi] area. The land in this productive area steadily rose in value. Furthermore, the local government found itself unable to deal properly with this inflationary situation. Consequently, a smaller amount of rice from this area caused a sudden food crisis in Shang-hai. An important factor behind the rising value of productive land was the extremely large amount of food requisitioned by the army.

2. Shang-hai depends on Ch'ing-tao (Tsingtao) for its bean oil requirements. Although it can produce the finished product itself, Shang-hai relies on other localities for its necessary supply of raw materials. This deficiency of raw materials resulted in a continuous rise in the price of oils at Shang-hai.

3. Although the cost of cotton yarn was initially influenced by the increased costs encountered by the Chinese spinning mills, yet operating costs and the relation between supply and demand also merit serious consideration. In the outer areas not affected by the government's restrictive decrees, the price of cotton was high and the demand extensive. At the same time, raw cotton rose in price and operative costs increased. This forced the spinning mills in Shang-hai to raise the prices of yarn to the black market level in order to stay in business. The increase in the prices of finished cotton products was a direct result of the above situation.

4. The price of raw silk was immediately affected by fluctuations in gold prices. When the buying and selling of gold and notes was prohibited, the rise in silk prices showed a surprisingly clear correlation with the price of gold quoted on the black market.

The principal causes of commodity price fluctuations during this period were, naturally, the continuation of hostilities and the concentration in Shang-hai of free capital from all other parts of China. A consideration of the remittances sent in to all commercial establishments located in the special municipality of Shang-hai reveals the following information.

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During the month of March, remittances suddenly increased to 467 billion yüan. By April, they had risen to [illegible] billion yüan; the total for May was 917 billion yüan or almost 100 percent more than the March total. This additional scattered capital caused widespread and dangerous commodity price fluctuations. Examples of this were the wild price upsurge of gold and notes on the black market, and price increases introduced by the public utilities, post, and telegraph services. At the same time, there was no definite word about the proposed loan from the US. The factors discussed above all exerted a powerful influence on the continuous rise in commodity prices.

C. June Through August

The rise in basic commodity prices merited careful consideration, for they were quite capable of influencing the other commodities to rise as well. Thus, there was popular anxiety over rumored price rises in July. These rumors were carefully studied by the government as well. However, various unexpected happenings brought rising prices to a halt.

Just at this time a special ambassador from the US, General Wedemeyer, arrived in China. Furthermore, the Chinese government announced in July that trade would be opened with Japan. The general sentiment consequently prevailed that China would receive a large amount of future aid from the US, and also that cheap goods would continually flow in after the resumption of trade with Japan. These optimistic beliefs produced a temporarily stable market situation. Commodity market prices rose only slightly during the considerably long period extending from the first week in June to the third week in August.

For example, the following essential commodities experienced these price fluctuations. The price of rice momentarily fell from 400,000 yüan per market picul to 350,000 yüan. By the fourth week in August, the price of rice had again risen to 425,000 yüan. This latter figure represented a difference of 9.[illegible] percent [sic] as compared with the lowest price quotation [presumably 350,000 yüan]. Other commodities such as oil, salt, fuel, etc. all made similar price recoveries.

During this period [first week in June to fourth week in August], the price of export products, such as hog bristles, tung oil, raw silk, etc., first fell but later recovered. Hog bristles fell in price from more than 5,900,000 yüan to 4,500,000 yüan. In addition to the stability of commodity prices during this period, gold and note prices remained unchanged, on the stock market and the black market, incidentally benefitting the masses considerably.

D. September Through October (Second Peak)

Shanghai commodity prices, which had been stable for more than 2 months [June to August period], began once again to surge upward as a result of the following stimuli: (a) the extension of the area marked by military conflict; (b) disruption of communications; (c) the presence of excess free capital; (d) the sudden rise in the foreign exchange rate; and (e) the announcement of General Wedemeyer's departure from China made at this time which reduced the hope of China receiving immediate aid from the US.

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A runaway inflation swept the country. When the new foreign exchange rate was publicly announced, prices rose in a completely uncontrollable fashion. The price leaders of this inflationary trend were export products such as hog bristles and tung oil, and import products such as iron, newsprint, etc. By the second week in October, as contrasted with the third week in August, bar iron had risen 200 percent, kerosene 163.7 percent, hog bristles 160.1 percent, and tung oil 100.9 percent. These price rises spread from the import and export markets to the general commodities market.

By the second week in October, as contrasted with the third week in August, rice had risen 60.6 percent, bean oil had risen 108.8 percent, and fuel 153.6 percent. In addition, yarn, cloth, silk, and silk goods all rose more than 100 percent in price. Dragon Head fine cloth rose 91 percent, cotton yarn 109.5 percent, and raw silk and silk goods rose 120 percent.

The above-mentioned commodity prices continued to spiral upward for a comparatively long period. However, the various inflationary elements which finally burst forth (during the second week in October) could no longer be contained. These inflationary elements were:

1. American aid was postponed and did not materialize. Furthermore, General Wedemeyer's expression of his dissatisfaction with the National Government caused general popular unrest.

2. The new foreign exchange rate encouraged rising import and export commodity prices.

3. The daily geographical expansion of military operations cut off available sources of supply.

4. Free capital, rushed into Shang-hai from the war sectors, was used for commodity-hoarding purposes.

5. Paper currency was issued in ever-increasing proportions.

6. Public utilities, transportation, and postal services increased their rates right in the midst of these commodity price fluctuations and caused further rises.

E. <u>October (Third week) Through December</u>

While a few commodity prices showed signs of recovery during the period extending from the second week in October to the second week in November, the vast majority continued to spiral upward towards a fourth stage of inflation. The inflationary factors at this time, similar to those previously mentioned, included: concentration of free capital; excess currency in circulation; the extension of the war sectors, with the consequently reduced number of localities that could provide rice, cotton, bean oil, coal, etc.; and the sudden falling off of remittances to Hong Kong.

Rapid price fluctuations prevailed right up to the end of 1947. By the fourth week in November, the government had established several emergency measures in an effort to halt the inflationary price trend:

1. The Joint Office of the Four Government Banks shall suspend the further issuance of loans, and call in all loans upon the expiration of their due date. At the same time, the restrictions on rediscounting loans for goods in transit are to be temporarily suspended.

2. The amount of money that each area remits to Shang-hai shall be limited. The public may not remit more than 300 billion yüan daily.

3. The chief responsibility for [illegible] measures shall be vested in an independent economic enforcement agency, composed of the top leaders of the Shang-hai Municipal Government, the Central Bank, and the Shang-hai Garrison.

4. The clearing-house system utilized by commercial establishments throughout the city shall be thoroughly investigated.

5. All warehouses throughout the city shall be carefully supervised in order to prevent hoarding.

These measures were intended to constrict the money market by suspending (bank) loans, to release more goods for the public, and to supervise market transactions strictly. The past tendency of commodity price fluctuations was momentarily checked by said government measures.

The appearance of larger denominations of paper currency on 9 December 1947 forced market prices upward once again. Within 2 weeks after this new currency issue, the above government measures succeeded in curtailing only a few commodity prices. In other words, the government succeeded in stabilizing the prices of cotton yarn, cotton cloth, artificial silk, and white sugar for a 3-week period by placing significant quantities of these goods on the market. However, with regard to rice, bean oil, coal, kerosene, raw silk, silk goods, etc., the government failed to increase available supplies enough to check their rising prices. The most extreme price rise was experienced by rice, which rose from 670,000 yüan per market picul during the third week in November to 950,000 yüan by the third week in December. By January 1948, the price of rice had already exceeded the one million yüan mark, without any signs of a letup.

The constriction of circulating currency by the government led to the remittance of 100 billion /sic/ yüan less daily to Shang-hai than formerly. The restrictions on loans also proved an effective (deflationary) measure. However, in the most recent week (in January 1948), at least 300 billion to 400 billion yüan has been circulating daily in Shang-hai. By January 1948, the temporarily constricted money market gradually began to loosen. This loosening has inevitably been followed by price rises on the stock and commodity markets.

III. CONCLUSION

The principal causes for commodity price fluctuations in 1947 are generally and openly recognized by everyone. First of all, the basic cause of commodity price fluctuations is the common knowledge that the paper currency is of uncertain value. Therefore, all commodity prices surge upward. Although this rise is related to the supply and demand situation, it often exceeds the scope of supply and demand because of the vigorous stimulus on prices exerted by surplus capital. The rise in price of certain commodities leads to an over-all increase in the price of all others. We have actually seen that happen many times in 1947. At the same time, the continual over-issuance of currency inevitably causes still higher prices on the stock market, gold and note market, and the commodities market. It is impossible to estimate accurately the degree to which new money was issued this year, because these figures have been kept top secret by the government. An attempt to estimate this amount by utilizing official reports and other statements indicates the following:

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The Ministry of Finance reported in May 1947 to the State Council on the amount of currency in circulation in 1946. According to this report, from January to April there were 3 trillion yüan, from May to August, 6 trillion yüan, and from September to December a minimum of 12 trillion yüan. It has been generally estimated that at least 30 trillion yüan were in circulation in 1947. An American Congressman, Dr Judd, stated in Congress that 250 million US dollars would enable China to recall her entire currency issue. Based on the official exchange rate of 73,000 yüan per US dollar, Dr Judd's estimate would mean a total of 18 trillion yüan in circulation. Black market rates, however, bring this figure up to almost 30 trillion yüan.

The three estimates mentioned above indicate that the entire amount of currency circulating in 1947 must have been in the neighborhood of 25 trillion yüan. The subsequent rise in commodity prices, however, was proportionately greater than the amount of additional currency placed in circulation. For example, in 1937 the total amount of legal currency issued was less than 1,600,000,000 yüan. If the amount of money issued in 1947 were 30 trillion yüan then 17,000 times more money was issued in 1947 than in 1937. However, according to the Economic Research Department of the Central Bank of China, the index numbers of the basic commodities in Shang-hai in December 1947 were 83,796 times higher than they were in 1937.

The next factor to consider in connection with rising prices is the rapid turnover of bank deposits. According to statistics compiled by the Central Bank of China's Economic Research Department, the monthly turnover of current bank deposits at Shang-hai in 1947 was as follows: January, 19.77; February, 24.63; March, 21.32; April, 22.57; May, 36.60; June, 36.05; July, 37.99; August, 32.62. These figures show that while the leading cause of price fluctuations in February was the failure to stabilize gold and note values, the rapid turnover of bank deposits in that month also influenced price increases. The sudden additional turnover of bank deposits during May and June closely corresponded to commodity fluctuations during those periods.

Due to the extension of hostilities throughout China, the area through which legal currency could freely circulate became gradually reduced. As a result, free capital came to be concentrated in a few large cities, and particularly in Shang-hai. According to statistics compiled by the Auditing Department of the Central Bank of China, the total amount of inward remittances through commercial banks at Shang-hai in 1947 was as follows: January, 337,200,000,000 yüan; April, 857,800,000,000; September, 2,417,100,000,000. This latter figure showed a sevenfold increase over the January figure. Most of this free capital was engaged in the stock, gold and notes, and essential commodities markets. This resulted in not one, but two commodity price rises.

The government attempted to halt the most recent inflation trends through certain restrictive measures. Although it set a fixed limit on the amount of inward remittances that could be transferred to Shang-hai, a stupendously large amount of ready currency still flowed in from the outports.

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Agricultural production, within the expanding sectors of military operations, was considerably hampered. At the same time, the breakdown in our communications system made it impossible for food to be shipped into the large cities from the interior. For example, Shang-hai had previously depended on the Ch'ao-hu sector of Anhwei Province for 50 percent of its rice requirements. At present, (January, 1948), however, very little rice is forthcoming from that sector, the only other source of supply for Shang-hai is the T'ai-hu area, located south of the Ch'ang Chiang (Yangtze River). However, this area's production must be taken to satisfy military and civilian needs. Consequently, government purchases and requisitions in this area have inevitably forced food prices upward.

Our nation has extensive areas that are well suited for cotton cultivation, diffused throughout the provinces of Central and North China. However, as a result of the spread of hostilities, it is now impossible to secure cotton from such a comparatively productive area as Shensi Province.

Furthermore, a much smaller amount of cotton was imported in 1947 than in 1946. These factors consequently caused price increases in cotton yarn and cloth. Due to the war's expansion, the production of other commodities such as bean oil and wheat flour has also diminished.

After the Exchange Equalization Board was established on 19 August 1947, [This took place 19 August 1946, not 1947], the cover rate per US dollar began to rise almost immediately. It rose from 39,000 yüan during August to 49,500 yüan by the fourth week in September, and increased again to 55,300 yüan by the third week in October. From the time that the six restrictive measures passed during the fourth week in November [1946] to the third week in December, the cover rate rose to 85,000 yüan. The rise in export product prices after September was closely followed by other commodities.

A secondary factor in regard to price increases was the month by month reduction in remittances to Hong Kong. When remittances to Hong Kong suddenly decreased in February, it was clear that the first significant rise in commodity prices had occurred. In May, remittances to Hong Kong once again fell off, just at the time of the second price rise. After the third price fluctuation in September, remittances to Hong Kong decreased to a still further degree. Thus, the increase or decrease in remittances to Hong Kong was evidently closely tied up with the behavior of Shang-hai commodity prices.

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